

TIMOTHY J. YOO (SBN 155531)
EVE H. KARASIK (SBN 155356)
JULIET Y. OH (SBN 211414)
LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
10250 Constellation Boulevard, Suite 1700
Los Angeles, California 90067
Telephone: (310) 229-1234; Facsimile: (310) 229-1244
Email: tjy@lnbyb.com, ehk@lnbyb.com, jyo@lnbyb.com

Proposed Attorneys for Chapter 11 Debtor
and Debtor in Possession

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

LOS ANGELES DIVISION

In re	)	Case No. 2:17-bk-17292-VZ
)	
CORNERSTONE APPAREL, INC.	)	Chapter 11
)	
Debtor.	)	DEBTOR'S REPLY TO LIMITED
	)	OPPOSITIONS FILED BY THE UNITED
	)	STATES TRUSTEE TO DEBTOR'S
	)	EMERGENCY MOTIONS FOR ENTRY
	)	OF ORDERS (1) AUTHORIZING
	)	DEBTOR TO REJECT CERTAIN
	)	UNEXPIRED NON-RESIDENTIAL REAL
	)	PROPERTY LEASES PURSUANT TO 11
	)	U.S.C. § 365 AND ABANDON ANY
	)	REMAINING PERSONAL PROPERTY
	)	LOCATED AT THE LEASED PREMISES,
	)	AND (2) FOR AUTHORITY TO PAY PRE-
	)	PETITION PRIORITY WAGES;
	)	DECLARATION OF TAE Y. YI
)	
	)	<u>Hearing:</u>
	)	Date: June 20, 2017
	)	Time: 1: 30 p.m.
	)	Courtroom: 1368
	)	Location: 255 E. Temple Street
	)	Los Angeles, California
)	
)	

1 Cornerstone Apparel, Inc. d/b/a Papaya Clothing, a California corporation and the debtor
2 and debtor-in-possession in the above-captioned Chapter 11 bankruptcy case (“Cornerstone”) or
3 the “Debtor”), hereby submits this reply (the “Reply”) to the limited oppositions filed by the
4 United States Trustee (the “UST”) to the *Debtor’s Emergency Motion For Entry Of An Order*
5 *Authorizing Debtor To Reject Certain Unexpired Non-Residential Real Property Leases*
6 *Pursuant To 11 U.S.C. § 365 And Abandon Any Remaining Personal Property Located At The*
7 *Leased Premises* [ECF No. 5] (the “Lease Rejection Motion”), and *Debtor’s Emergency Motion*
8 *For Authority To Pay Pre-Petition Priority Wages* [ECF No. 22] (the “Wage Motion”).

9 **A. The Court Should Permit the Debtor to Abandon Any Personal Property to the**
10 **Landlords at the Rejected Lease Sites As Applicable to Avoid the Potential**
11 **Occurrence of Administrative Expense Claims.**

12 The UST objects to the portion of the Lease Rejection Motion that provides that any
13 personal property left at the rejected lease sites would be abandoned. Cornerstone has
14 determined that it will remove all personal property remaining at the closed stores such as
15 inventory, fixtures, computers and other personal property, and have such property delivered to
16 the Cornerstone corporate office/warehouse. There is no personal property remaining at the
17 Vacated Retail Stores.¹ None of the personal property located at the Rejected Operating Retail
18 Stores is subject to a personal property lease.

19 Cornerstone seeks the relief in the Lease Rejection Motion that any remaining personal
20 property inadvertently left at the rejected lease sites be deemed abandoned to the landlords for
21 the respective rejected lease sites. This relief will protect the Debtor and the estate from the
22 creation of unintended administrative expense claims. Landlords may assert claims under
23 Bankruptcy Code section 503(b) if personal property remains on the site as the leased site may
24 not be “vacated” as provided for under the leases.

25 The request to abandon personal property to landlords for rejected lease sites has been
26 granted by other courts in retail bankruptcy cases in an effort to reduce the incurrence of
27

28 ¹ Capitalized terms used and not defined herein have the meanings set forth in the Lease Rejection Motion
and the Wage Motion, and such definitions are incorporated herein by this reference.

administrative expense claims. In particular, this relief has also been granted in the United States Bankruptcy Court for the Central District of California. *See, e.g., Order Granting Motion for Entry of An Order Authorizing Debtor to Reject Certain Unexpired Non-Residential Real Property Leases Pursuant to 11 U.S.C. § 365 and Abandon any Remaining Personal Property Located at Leased Premises, In re Blue Bee, Inc.*, Case No. 2:16-bk-23836-SK, [ECF No.103]; *Final Order Granting Emergency Motion By Debtor For Entry Of Interim And Final Orders: (A) Authorizing Assumption Of Agency Agreement; (B) Authorizing Sale Free And Clear Of All Liens, Claims, And Encumbrances Pursuant To Bankruptcy Code Sections 363(B) And (F); (C) Approving The Store Closing Sale Guidelines; (D) Authorizing The Debtor To Abandon; And (E) Authorizing Lease Rejection Procedures With Respect To The Closing Stores Pursuant To Section 365, Paragraph 54, Case No. 8:15-bk-13008- TA, (ECF No. 240]*.

Accordingly, Cornerstone respectfully requests that the Court grant the relief requested in the Lease Rejection Motion and permit the Debtor to abandon personal property to the landlords for the rejected lease sites.

B. The Debtor Has Provided Information Below that Resolves the UST's Limited Opposition to the Wage Motion.

The UST objects to the Wage Motion on the grounds that insufficient evidence has been submitted to support the payment of priority wages for two (2) of the Debtor's stores, and that the Debtor has not identified the names of all of the insiders so that the Court and the UST can confirm that no insiders will be paid pursuant to the Wage Motion.

The two insiders in addition to Mr. Tae Yi are Mr. Kenneth Choi and Mrs. Rachel Choi. Mr. Choi is the Chief Executive Officer and a shareholder of Cornerstone. Mrs. Rachel Choi is the Vice President and a shareholder of Cornerstone. None of the insiders will be paid pursuant to the Wage Motion.

The two stores for which the Debtor submitted no schedule of wages for employees are not subject to the Wage Motion. The Roseville Galleria (CNG) is not yet an operating store. Cornerstone has a signed lease with the landlord for the Roseville Galleria, but the store has not been built-out or opened for business. Accordingly, it has no employees.

1 The Glendale Galleria (CAO) is an operating store, which operates as Papaya Clothing,
2 but the store is owned by a non-debtor entity. There are five stores that operate as Papaya
3 Clothing (including the Glendale Galleria) that are owned by non-debtor entities, which include
4 the Glendale Galleria. These non-debtor entities are Glendale CSA, Inc. (Store CAO), CSA
5 Apparel Co. LP (Stores TXF and TXH), and Vision Canaan Corp. (Stores FLG and FLH).
6 Accordingly, the employees at the Glendale Galleria store are not included in the Wage Motion.²

7 **WHEREFORE**, the Debtor respectfully requests that this Court grant the Lease
8 Rejection Motion and the Wage Motion on the terms set forth above.

9 Dated: June 19, 2017

CORNERSTONE APPAREL, INC.

10
11 By: /s/ Eve H. Karasik
12 TIMOTHY J. YOO
13 EVE H. KARASIK
14 JULIET Y. OH
15 LEVENE, NEALE, BENDER, YOO
16 & BRILL L.L.P.
17 Proposed Attorneys for Debtor and
18 Debtor in Possession
19
20
21
22
23
24
25
26

27 ² The five non-debtor stores were inadvertently included in the *Debtor's Emergency Motion For Entry Of*
28 *An Order Authorizing Debtor To Provide Adequate Assurance Of Future Payment To Utility Companies Pursuant*
To 11 U.S.C. § 366 [ECF No. 6]. The Debtor will provide in the order for the Utility Motion that the five non-
debtor stores are excluded from the requested relief.

DECLARATION OF TAE Y. YI

I, Tae Y. Yi, hereby declare as follows:

1. I am over 18 years of age. I am the President, Chief Financial Officer, Secretary, and one of the three shareholders of Cornerstone Apparel, Inc., d/b/a Papaya Clothing, the debtor and debtor in possession in the above-captioned Chapter 11 bankruptcy case (“Cornerstone” and the “Debtor”), and am therefore familiar with the business operations and financial books and records of the Debtor. I have personal knowledge of the facts set forth below and, if called to testify as a witness, I could and would competently testify thereto.

2. I have access to the Debtor’s books and records. As the President, Chief Financial Officer and Secretary of the Debtor, I am familiar with the history, organization, operations and financial condition of the Debtor. The records and documents referred to in this Declaration constitute writings taken, made, or maintained in the regular or ordinary course of the Debtor’s business at or near the time of act, condition or event to which they relate by persons employed by the Debtor who had a business duty to the Debtor to accurately and completely take, make, and maintain such records and documents. The statements set forth in this declaration are based upon my own personal knowledge and my review of the Debtor’s books and records.

3. I make this declaration in support of the motion (the “Reply”) to which this declaration is attached, pursuant to which the Debtor is responding to the limited oppositions of the United States Trustee (the “UST”) to the Debtor’s emergency motions seeking the entry of (i) an order authorizing the Debtor to pay pre-petition priority wages, and (ii) an order authorizing the Debtor to reject certain leases and abandon personal property at the rejected lease sites.

4. Cornerstone has determined that it will remove all personal property remaining at the closed stores such as inventory, fixtures, computers and other personal property and have them delivered to the Cornerstone corporate office/warehouse. There is no personal property remaining at the Vacated Retail Stores. None of the personal property located at the Rejected Operating Retail Stores is subject to a personal property lease.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is: 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067

A true and correct copy of the foregoing document entitled: **DEBTOR'S REPLY TO LIMITED OPPOSITIONS FILED BY THE UNITED STATES TRUSTEE TO DEBTOR'S EMERGENCY MOTIONS FOR ENTRY OF ORDERS (1) AUTHORIZING DEBTOR TO REJECT CERTAIN UNEXPIRED NON-RESIDENTIAL REAL PROPERTY LEASES PURSUANT TO 11 U.S.C. § 365 AND ABANDON ANY REMAINING PERSONAL PROPERTY LOCATED AT THE LEASED PREMISES, AND (2) FOR AUTHORITY TO PAY PREPETITION PRIORITY WAGES; DECLARATION OF TAE Y. YI** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF): Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **June 19, 2017**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

- Ronald E Gold rgold@fbtlaw.com, joguinn@fbtlaw.com
- Eve H Karasik ehk@lnbyb.com
- John W Kim johnkim@jwklawgroup.com
- Kelly L Morrison kelly.l.morrison@usdoj.gov
- Juliet Y Oh jyo@lnbrb.com, jyo@lnbrb.com
- Kristen N Pate ggpbk@ggp.com
- Christopher E Prince cprince@lesnickprince.com, jmack@lesnickprince.com; mlampton@lesnickprince.com; cprince@ecf.courtdrive.com
- Benjamin Seigel bseigel@greenbass.com, rholland@greenbass.com; ecfnofication@greenbass.com
- Ronald M Tucker rtucker@simon.com, cmartin@simon.com; psummers@simon.com; Bankruptcy@simon.com
- United States Trustee (LA) ustpreion16.la.ecf@usdoj.gov
- Timothy J Yoo tjy@lnbyb.com

2. SERVED BY UNITED STATES MAIL: On **June 19, 2017**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **June 19, 2017**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

Served via Attorney Service

Hon. Vincent P. Zurzolo
United States Bankruptcy Court
Edward R. Roybal Federal Building
255 E. Temple Street, Suite 1360 / Ctrm 1368
Los Angeles, CA 90012

Served via Overnight Mail

United States Trustee
915 Wilshire Blvd., Suite 1850
Los Angeles, California 90017

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

June 19, 2017

Stephanie Reichert

/s/ Stephanie Reichert

Date

Type Name

Signature